Testimony to Senate Assessment and Taxation Committee
SCR 1604
15 February 2017
James Franko, Vice President & Policy Director

Chairwoman Tyson and Members of the Committee,

We appreciate this opportunity to testify in opposition to SCR 1604. Like so many issues in political and policy debates this bill is conceived with the best of intentions but it will only end up shifting the burden amongst Kansas taxpayers. Ultimately, this will not help the Kansans who need the most help – those struggling at the bottom of the socioeconomic ladder. The best way to help these Kansans is by providing them with the economic opportunities necessary for them to find a job that allows them to climb the ladder to provide for their family and live their American Dream.

Tax Policy Should Drive Economic Opportunity

Every citizen should get relief but people also benefit when the tax burden is reduced on job creators. Since Kansas initial tax cuts of 2012, the state did not cut taxes for C-corporations but pass-through income was exempted for partnerships, proprietors, sub-S corporations and LLCs, which are taxed as individual for state and federal purposes. Exempting that income created legitimate fairness issues, more below, but it did produce significant results.

Employment at pass-through firms grew by just 2.4 percent in the two years preceding the exemption but then jumped 8.4 percent in the next two years. Pass-through employment nationwide grew slightly faster but Kansas was much closer to the national average and its growth acceleration was remarkable. Nationally, the 2012-14 pass-through growth rate was 108 percent greater than 2010-12 but the Kansas growth rate was 251 percent better (8.4 vs. 2.4).[1]

Employment Change by Legal Entity Type

Entity Type	Kansas		United States	
	2010-12	2012-14	2010-12	2012-14
Corporations	-1.0%	1.4%	3.2%	0.8%
Pass-Through	2.4%	8.4%	4.6%	9.5%
Non-profits	0.1%	1.1%	1.5%	2.3%
Other	8.8%	-6.7%	-0.5%	1.8%
Private	0.5%	4.0%	3.5%	4.5%

Source: U.S. Census, County Business Patterns database

The U.S. economy is also extremely dependent upon jobs created by new establishments, which could be a proprietor opening a new restaurant or a new Wal-Mart. In fact, if not for jobs created by new establishments, there wouldn't have been a single year of job growth since 1977.[2]

Fairness Issues

The question of fairness is often raised in tax debates, especially with Kansas' current tax debate. In fact, the income tax exemption on pass-through income creates a legitimate issue of fairness but the Legislature has long approved (and thus far declined to rescind) many other exemptions, including:

- Retirees of state universities and the Board of Regents participating in their 403(b) plan are exempt from state income tax on withdrawals. Private sector citizens are fully taxed on their pension and 401(k) withdrawals.

- Retirees of other state agencies, school districts and local government participate in the Kansas Public Employees Retirement System (KPERS). They are taxed on their personal contributions to the pension program but are never taxed on the majority of their withdrawals, which come from employer contributions and earnings on all contributions.

- Legislators get an even better deal. In addition to preferential tax treatment, their pensions are based on having worked a full year and earned about $85,000 instead of what they are actually paid – less than $10,000 per year.

- The Legislature allows local government to exempt chosen businesses from state and local sales tax with the use of STAR bonds and Industrial Revenue Bonds, which results in others being taxed more to make up the difference.

- The Legislature provides sales tax exemptions to a wide array business activities, services, retail purchases and many non-profit organizations (for the record, KPI pays sales tax) totaling more than $5 billion dollars annually. Some of the exempt entities even came to the Legislature one at a time asking for special treatment.

- The State of Kansas' HPIP program exempts businesses selected by government from sales tax and provides income tax credits. The PEAK program allows businesses chosen by government to keep 95 percent of their eligible employees' state income tax withholding for up to 10 years.

I would close by suggesting that the committee examine the overall burden of taxes within the state. It makes no difference if the sales tax on food is lowered only to see taxes increase in another area. KPI would offer the same advice as taxes are lowered on businesses or individuals. If a lower overall tax burden is the goal then spending must be lowered as well. Kansas tax policy cannot simply push the balloon in one place to see it rise in another. As we have seen since income taxes were lowered in 2012 – 29% percent of which went to small businesses while 71% went to individual earners – sales and other taxes have only increased. This is because the state failed to bring spending in line with revenue.[3]

The goal of Kansas' tax policy should be to drive economic opportunity for all Kansans while still providing revenue for essential government services. This can be done with a lighter burden on all Kansans. SCR 1604, however, does not help the state achieve this goal.

Thank you for the opportunity to provide written testimony in opposition to SCR 1604.

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[1] https://kansaspolicy.org/job-growth-and-kansas-tax-reforms

[2] Ibid, page 3

[3] Ibid, page 5